

Message Text

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TO SECSTATE WASHDC 827

INFO AMEMBASSY OTTAWA

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TAGS: ENRG, PINT, CA

SUBJECT: ALBERTA RESPONDS TO FEDERAL OIL TAX WITH MAJOR
ENERGY POLICY REVISIONS

REF: CALGARY'S A-144, SEPTEMBER 25

1. WEDNESDAY'S MEETING AT EDMONTON BETWEEN FEDERAL ENERGY MINISTER DONALD MACDONALD AND ALBERTA PREMIER PETER LOUGHEED APPARENTLY RESULTED IN LITTLE PROGRESS BEING MADE IN MOVING TOWARD SETTLEMENT OF THEIR DIFFERENCES ON OIL POLICY, WITH THE PREMIER NOW PROPOSING TO MAKE MAJOR CHANGES IN ALBERTA'S OWN OIL AND GAS LEGISLATION.

2. PRIOR TO HIS RETURN TO OTTAWA, MACDONALD TOLD REPORTERS THAT THE MEETING WAS A STALEMATE, AND THAT THE FEDERAL GOVERNMENT HAD NOT RPT NOT AGREED TO EXEMPT ATHABASCA SYNTHETIC CRUDE OIL FROM THE FEDERAL EXPORT TAX. HE ALSO SAID NO AGREEMENT HAD BEEN REACHED ON THE DIVISION OF THE 40 CENT PER BARREL TAX BETWEEN THE FEDERAL GOVERNMENT AND ALBERTA.

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3. PREMIER LOUGHEED REPORTEDLY REQUESTED MACDONALD TO REMOVE

THE EXPORT TAX AND, WHEN THIS WAS REFUSED, TOLD THE MINISTER THAT THE PROVINCIAL GOVERNMENT THEN WAS FORCED TO RESPOND WITH MAJOR REVISIONS IN ITS OWN OIL AND GAS POLICIES, LEGISLATION AND ROYALTY ARRANGEMENTS.

4. STEPS WHICH LOUGHEED PROPOSES TO TAKE ARE AS FOLLOWS:

(1) THE EXISTING ALBERTA OIL REVENUE AND ROYALTY PLAN WILL BE REPLACED BY NEW LEGISLATION CONTAINING THE FOLLOWING PROVISIONS: (A) ELIMINATION OF ALL PROVISIONS IN LEASES UNDER THE MINES AND MINERALS ACT HAVING A MAXIMUM LIMIT ON THE ROYALTY PAYABLE FOR PETROLEUM AND NATURAL GAS (B) THE MINERAL TAXATION ACT 1972 TO BE REPEALED AND NEW LEGISLATION PROVIDING FOR THE TAXATION OF FREEHOLD MINERALS TO BE ENACTED (C) REGULATIONS DETERMINING METHOD OF CALCULATION AND PAYMENT OF ROYALTIES TO BE AMENDED SUBSTANTIALLY TO PROVIDE FOR NEW ROYALTY SCHEDULES FOR PETROLEUM AND NATURAL GAS (D) NEW ROYALTY SCHEDULE WILL BE BASED UPON FORMULA WHEREBY EFFECTIVE RATE OF GROSS ROYALTY ON OIL PRODUCTION WILL INCREASE AS THE PRICE OF THE WELLHEAD INCREASES OR AS DEEMED BY PROVINCIAL GOVERNMENT TO HAVE INCREASED. (W) ALBERTA'S EXPLORATORY DRILLING INCENTIVE SYSTEM WILL BE EXPANDED BY ENLARGING THE NUMBER OF QUALIFYING WELLS AND BY REDEFINING ROYALTY CREDITS. LAND TURNOVER WILL BE ACCELERATED TO INCREASE NUMBER OF DRILLING OPPORTUNITIES IN ALBERTA, AND PRODUCTION PROFITS MAY BE USED FOR EXPANDED TECHNOLOGY AND RESEARCH IN SPECIFIC PROVINCIAL OIL AND GAS PROJECTS.

5. LOUGHEED CONCLUDED BY STATING NEW POLICIES WILL REQUIRE SUBSTANTIAL OVERHAUL OF EXISTING OIL AND GAS LEGISLATION IN ALBERTA, BUT PROCESS SHOULD BE COMPLETED BY EARLY 1974. HE EMPHASIZED THAT VIEWS OF PRODUCING INDUSTRY AND OTHER INTERESTED GROUPS WILL BE SOUGHT BEFORE LEGISLATION IS FINALIZED.

6. PROPOSED CHANGES ARE EXPECTED TO RESULT IN SUBSTANTIALLY GREATER PAYMENTS BY COMPANIES TO PROVINCIAL TREASURY, BUT SOME OF THIS MAY BE RETURNED THROUGH INCENTIVE PROGRAM FOR NEW DRILLING. LOUGHEED'S PROPOSALS ARE ALL DESIGNED TO TAKE EFFECT IN 1974, THEREBY GIVING FEDERAL AND PROVINCIAL GOVERNMENT PERIOD OF A FEW MONTHS FOR FURTHER NEGOTIATION

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OF THESE ISSUES. THE EFFECT OF PROPOSED ALBERTA POLICIES ON OIL AND GAS PRICES FOR CANADIAN AND UNITED STATES CONSUMERS IN PROCESS OF BEING ANALYZED, AND REACTIONS OF ALBERTA-BASED OIL AND GAS COMPANIES WILL BE REPORTED LATER.
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